Yerba Buena Center

1500 Low Rent Housing Units

700 Units To Go

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Yerba Buena Center :
1500 low rent housing
1973?]

INTRODUCTION AND SUMMARY

INTRODUCTION: Why 1500 Low-Cost Housing Units Must be Built by November 1973

Ground is scheduled to be broken for the Yerba Buena Center convention center in early spring 1973. To meet this critical deadline the City and the San Francisco Redevelopment Agency are rushing to completion the work leading to construction.

All of the property needed for the convention complex has been acquired and all but a few buildings have been demolished. The issuance of $225 million in lease revenue bonds to finance the public facilities has been authorized. Architecture and engineering for the convention complex is approximately 50 percent complete. All of the architecture and engineering is on schedule.

At the present time the Agency is legally restrained by Federal Court Order from completing the relocation of the last residents (119 persons) and demolition of the last residential buildings (4 hotels and one apartment) within the area required for the convention complex. If this prohibition continues, it will interfere with the scheduled completion of the new facilities.

The City and the Agency are firmly committed to take all actions necessary to lift these legal barriers.

In November 1970 a Federal Court Consent Order was signed which required that the Agency assure the construction in San Francisco of no less than 1500 units of new or rehabilitated low-income housing, provided that residents of Yerba Buena Center shall have first priority

as to at least 300 such units. In the absence of such priority 1800 units are required. To date the Federal Government is committed to providing subsidy funds for 919 low-rent housing units of which no less than 300 will be available with the required priority. An additional 82 units are being privately developed by the Salvation Army. This leaves a balance of approximately 500 units. To insure that the terms of the order are met, as of this date, at least 700 units should be programmed to allow for any "fall-out". This documents sets forth the methods by which this can be accomplished.

SUMMARY: How to Provide the 700 Low-Cost Housing Units

Basic Method: Application of Federal Rent Supplements to Rehabilitated Privately Owned Transient Hotels

The Basic Method, which has the potential of producing 700 units of low-cost housing, could in itself satisfy the requirements of the Court Order. For this reason it is called the Basic Method. The Supplemental Methods (Part One and Part Two following) are to be utilized only to the extent that the Basic Method fails to provide 700 units of housing.

Under the Basic Method, Federal rent supplements are used to reduce room rents in hotels purchased and rehabilitated by private owners who make use of the Federally subsidized Section 221(d)(3) FHA mortgage insurance program to obtain necessary financing. Applications for such hotel rehabilitation projects have already been submitted to HUD. Their approval, together with an allocation of 700 Federal rent supplements, would assure that the terms of the Court Order can be satisfied.

The use of transient hotels substantially avoids the need to displace permanent residents. Because of extensive new hotel construction activity, many substantial older hotels of better than average quality have recently become available for rehabilitation and conversion to permanent occupancy.

Supplemental Methods:

Part One: Use of Hotel Tax to Provide Local Rent Supplements to Reduce Rents in Moderately Priced Nonprofit Private Housing

Part One has the capability of providing 353 low-rent housing units. Under this approach the City commits itself to provide Local Rent Supplements (LRS) for a period of ten years for units in the following FHA Section 236 moderate priced housing developments:

	TOTAL NUMBER OF UNITS	FEDERAL RENT SUPPLEMENT UNITS	CITY RENT SUPPLEMENT UNITS
Alexis Apartments	206	82	124
Salvation Army	258	103	155
Vincentian Villa	124	50	74
	588	235	353

As indicated above, the Federal Government is committed to providing Federal rent supplements for only 40 percent (the maximum statutory limit) of the units in the above developments. With the addition of City rent supplements to the remaining units, 100 percent or 588 of

units in these developments will become available for persons of low income.*

It is estimated that the Local Rent Supplement program would require an annual expenditure of $159,084 for ten years. Three sources would be used to provide necessary funds:

1. The current $1 million ($100,000 per year) Yerba Buena Center Rent Supplement Program funded by Ordinance 123-71
2. The application of an increase in hotel tax proceeds assuming a growth of income from this source.
3. Additional utilization of current Hotel Tax proceeds.

Part Two: Use of Hotel Tax to Provide Local Rent Supplements to Reduce Rents in Privately or Redevelopment Agency Financed and Rehabilitated Transient Hotels

Part Two would permit extended use of the Local Rent Supplements, in the manner shown in Part One, but in connection with similar Section 236 housing developments under construction in redevelopment areas. Developments such as Royal Adah Arms or El Bethel Arms (143 moderate rent units) currently under construction in the Western Addition are typical examples of developments wherein a limited number of Local Rent Supplements may be considered. Unfortunately, such developments contain unusually large proportions of 1-bedroom units which rent for up to 40 percent more than the studio units referred to in Part One. In addition, Part Two would permit the use of Local Rent Supplements in any suitable unit provided the rent

*Because units already supplemented by the Federal government are included in the 919 units already applied to the satisfaction of the 1500-unit requirement, only the new Local supplement units (353) can be applied.

is modest and the owner agreed to rehabilitate his structure prior to occupancy by a supplemented tenant. In order to ascertain the cost of Part Two in the absence of specific suitable developments in which Local Rent Supplements can be designated at this time, an alternate method of providing suitable units has been investigated in order to establish a reasonable magnitude of costs for Part Two.

The alternate method set forth in Part Two can assure the provision of 350 units of low-cost housing. Under this approach it is possible for a nonprofit organization or the Redevelopment Agency to arrange for the financing, acquisition, and rehabilitation of existing transient hotels and their conversion to permanent low-income housing.

The rehabilitated housing will be financed either by private loans supported by community business groups or by the issuance of lease-revenue bonds. In either case, to keep interest rates low, the City guarantees the repayment of the mortgage financing.

Rental income from the rehabilitated housing units would reflect the rent-paying ability of low income residents. A city subsidy will be required to cover the difference (estimated to be approximately $268,332 per year for a 35-year term) between rents received and annual amortization payments and annual operating expenses. This subsidy, which in effect is a Local rent supplement, would amount over the 35-year term to an estimated $9,391,620.

The same three funding resources would be used as are summarized in Part One (see page 3) except that under the third listed source, a one-half percent increase in the hotel tax may be required instead of one-quarter.

Basic Method

Basic Method: Application of Federal Rent Supplements to Rehabilitated Privately Owned Transient Hotels

Low-rent housing in the context of the Court Order means housing subsidized under a Federal or other assistance program to reduce rents to approximately 25 percent of the monthly incomes of households earning not more than $4,000 annually for a single individual.

There are two Federal subsidy programs which reach this constituency: public housing assistance and the Federal rent supplement program.

The Department of Housing and Urban Development (HUD) has placed an embargo on the further funding of public housing construction in San Francisco. Consequently, that alternative has been ruled out as a significant means of achieving the 1500-unit goal. Hence, the only currently practicable Federally subsidized method is the Federal rent supplement program.

Federal rent supplements reduce the tenant's cost of a given unit to a figure approximately 25 percent of his monthly income. The Federal Government subsidizes the difference between what the resident pays and the basic rent[(1)] of the dwelling unit. Generally rent supplements can be applied to housing developments insured by the Federal Housing Administration (FHA) when approved by HUD prior to construction or rehabilitation. For the most part eligible projects are those insured under Sections 236 or 221(d)(3) of the National Housing Act.

(1) See page 28 for footnotes

Under Section 236 FHA insures a mortgage by a private lender at a market interest rate and agrees to subsidize the project by paying all interest in excess of 1 percent. HUD may also approve an additional Federal subsidy for no more than 40 percent of the dwelling units by allocating Federal rent supplements to such units.

Under Section 221(d)(3) FHA insures a mortgage by a private lender at a market rate and agrees to subsidize the project by providing Federal rent supplements for 100 percent of the dwelling units.

Although Section 236 is a desirable program and has been relied on to the maximum extent feasible, if the City is to provide 1500 units of low-rent housing by November 1973, it can for the remaining units do so more efficiently with the Section 221(d)(3) and Federal rent supplement programs because of the higher proportion of units receiving rent supplements. In addition, there are other compelling reasons for electing Section 221(d)(3):

1. Section 221(d)(3) lends itself well to transient hotel rehabilitation which is desirable because of the availability on the market of such hotels and the difficulty of site acquisition and clearance together with prolonged development periods which make completion of new construction before the deadline virtually impossible.
2. Federal rent supplements, applied to a Section 221(d)(3) development, cost the government less and it may therefore be disposed to fund such supplements much quicker. The average annual per dwelling unit supplement in a Section 236 development is $2,500. The average annual per dwelling unit supplement in a Section 221(d)(3) development is $1,300.

3. Rehabilitation has a Federal income tax advantage for an owner-developer over new construction. The straight line method of depreciation of rehabilitation costs may be used on an accelerated basis over a five-year period.

For the reasons set forth above, it is clear that the most effective method for providing the bulk of the 1500 units is by means of acquisition and rehabilitation loans insured through Section 221(d)(3) and secured with 100 percent Federal rent supplements.

Accordingly, the Agency has actively solicited suitable rehabilitation proposals and has provided technical assistance to various sponsors and developers in following the basic steps required to obtain Federal funding.

The basic steps are as follows:

1. Developer investigates hotel or other property offered for sale and makes a judgment as to its potential for rehabilitation with one of the most important considerations being the number of permanent residents who might be displaced even temporarily by reconstruction activity.
2. HUD appraisers investigate the property and give an opinion as to its likely feasibility under Section 221(d)(3).
3. Developer takes an option on the property and begins a full feasibility study.
4. A complete Application for Mortgage Insurance and subsidy funds is prepared by the developer and is submitted to HUD.

5. HUD makes a detailed analysis of the proposal and accepts, rejects, or postpones it, depending upon its general feasibility and the subsidy dollars then available to the HUD Area Office.
6. HUD issues a Letter of Feasibility with a reservation of Federal rent supplement funds.
7. Developer and his architect proceed with detailed working drawings for rehabilitation of the building, preparation of all other documents and arrangements necessary for HUD's firm commitment. With all documents in order, the developer requests a firm commitment.
8. HUD issues a firm commitment to insure and subsidize the development, a closing is held, and the development proceeds to construction.

As indicated previously, considerable progress has been made in encouraging sponsors and developers to submit hotel rehabilitation proposals to HUD.

At the present time 1,357 units are proceeding through the above steps. Four rehabilitation projects, totalling 475 units have proceeded to Step 6. Another 882 units are "stuck" at Step 5 and have an uncertain future. Speedy approval and funding of at least 700 of such units would assure an early start of construction on the balance of the units needed to satisfy the District Court Order.

Supplemental Methods

Part one

Supplemental Methods:

Part One: Use of Hotel Tax to Provide Local Rent Supplements to Reduce Rents in Federally-assisted Moderately Priced Nonprofit Private Housing

This is Part One of the supplemental methods to add up to 700 units the inventory of low-rent housing in San Francisco.

Part One of this proposal adds 353 units of housing for eligible low-income persons through creation and operation of a Local Rent Supplement (LRS) program funded from hotel tax receipts.

The LRS would provide monthly payments to the nonprofit owner sufficient to reduce the rent of units located in newly construction moderate-priced elderly housing development Federally insured and assisted under Section 236 of the National Housing Act, as amended.

Part One is divided into five sections:

1. Units to be Supplemented
2. Cost of City Rent Supplements
3. Source of Funds
4. Basic Elements of the Local Rent Supplement
5. Part One Conclusion.

1. Units to be Supplemented

Currently under construction or funded by HUD are the following developments with 588 studio and one-bedroom dwelling units of FHA insured and subsidized housing (Section 236 of the National Housing Act)(2) sponsored by three well-established nonprofit charitable organizations:(3)

	Total Number of Units	40% HUD Assisted Low Rent Units	Currently Estimated Completion Date
Alexis Apartments	206	82	April 1973
Salvation Army	258	103	November 1973
Vincentian Villa	124	50	February 1973
	588	235	

As indicated above, 235 units, or 40 percent, will be available to eligible persons with very low rent-paying abilities by virtue of Federal rent supplements for such units. Accordingly, the 235 Federal rent supplement units contribute to San Francisco's commitment to provide 1500(7) units of low-rent housing, issuing from TOOR vs. HUD et al Consent Order.

The basic rental rate for the remaining 353 units (588 minus 235 = 353) in the above developments currently varies from minimum rentals estimated to be $90 to $93 monthly. Although this range is below market rate for comparable housing, it is above the low-rent levels specified in the Consent Order and thus would not meet Federal Judge Stanley Weigel's criteria.

The experience of a development similar(4) to those under construction or funded indicates that the average single resident who receives a Federal rent supplement pays $60 of the basic monthly rent himself.

Part One would provide for a Local rent supplement program to make the 353 units available to those with low rent-paying abilities: i.e., $60 (average). Essentially the local supplements would be an extension of the Federal supplement program. This City-financed program would add 353 units toward fulfillment of San Francisco's 1500 unit obligation.

2. Cost of City Rent Supplements

The level of subsidy required to lower the rent in specific nonprofit developments is based on the difference between tenants' maximum ability to pay and the basic rent for the units to be occupied. For example, if the basic rent is $90 monthly and an applicant's maximum ability to pay is $60 monthly, the supplement required would be $30 per month.

The basic rent amount for each of the above developments is based on the best information available at this time which generally are applications for firm financing commitments submitted to HUD. While such rents may be increased by HUD prior or subsequent to the issuance of financing commitments, the applications are a useful basis for estimating the final base rent; therefore, it is possible to calculate the approximate cost to the City of providing LRS by comparing the currently estimated basic rent with the estimated rent-paying ability of prospective tenants.

Figure "A" (attached) indicates the approximate difference, or LRS amount, between estimated rent-paying ability and the current basic rent for Alexis Apartments, Salvation Army, and Vincentian Villa.

The approximate net LRS amount per month per unit for the above developments is, respectively, $30.00, $31.77, and $33.00.

In order to determine the total LRS cost, it is necessary to anticipate likely increases in the operating expenses of the developments over the years which could lead to an increase in base rent. Thus, 10 percent of the basic rent supplement is added for contingencies, as in the Federal rent supplement program. Another 10 percent of the basic rent supplement amount is added for administration and overhead.

The total LRS amount per month per unit for the above developments is, respectively, $36.00, $38.11, and $39.00.

Figure "B" (attached) indicates the total cost of City Rent Supplements applied to the 353 units for one month, one year, and ten years. The total RS cost for 353 units may also be shown:

$ 13,257 for one month

$ 159,084 for one year

$ 1,590,846 for ten years

The figures above represent an average expenditure of $37.55 per unit per month.

3. Paying for City Rent Supplements

An ordinance of the Board of Supervisors authorized (5) on May 8, 1972 an appropriation of $100,000 per year, not to exceed $1,000,000 in ten years, for the purpose of providing rent supplements to displacees from Yerba Buena Center. It is proposed that the Board amend such ordinance to provide for the LRS program proposed herein. Approval of such an amendment would provide for the creation of housing wherein a priority is maintained for Yerba Buena Center displacees. Irrespective of

occupancy of such units by displacees from South of Market, all 353 units so developed would meet the terms of the Consent Order and would be part of the City's production of 1500 low-rent units.

In order to provide for LRS, an allocation from the hotel tax is recommended in the amount of $13,257 per month, or $159,084 per year. This is an increase over the current amount for Yerba Buena Center rent supplements of $4,923 per month, or $59,084 annually.

The additional funds required could be obtained from an application of an increase in hotel tax proceeds, assuming a growth of income from this source, or from existing proceeds by diverting a greater proportion to the Local Rent Supplement program.

4. Basic Elements of the Local Rent Supplement

The LRS program should contain in its provisions the following basic elements:

1. The City may enter into a rent supplement contract,for a period of ten years,with the owner or operator of standard housing developments of a portion of the basic rent in 0-bedroom (studio) and 1-bedroom units on behalf of qualified tenants. Qualified tenants shall be persons eligible for Federal rent supplements for whom such supplements are not available.
2. To participate in the LRS program, the owner should agree to apply all Federal rent supplements allocated to his development, if any, to his most expensive units first.

3. Upon request of the housing owner, the City will review for eligibility the application by a prospective tenant for LRS payments. If the application meets the requirements of Paragraph 1 above, the City shall issue a certificate of eligibility. The certificate shall state the amount of rent supplement to be paid monthly by the City to the housing owner on behalf of the qualified tenant.

4. The rent supplement contract shall provide that the payment on behalf of a qualified tenant shall be that amount which the basic rent for the unit exceeds one-fourth of the tenant's income, or exceeds any welfare allowance for housing or Federal relocation benefits for housing if such allowance is larger than one-fourth of the tenant's income.

5. The payment shown in the certificate of eligibility shall not, regardless of the tenant's income, exceed 70 percent of the basic rent for the unit. No certificate of eligibility shall be issued where the amount of rent supplement payments would be less than 10 percent of such basic rent.

6. Paragraph 5 shall be the rule, provided that no offer of housing shall be made to households whose income exceeds the maximum allowable income for eligibility for Federal rent supplements.

7. The City will draw on LRS funds to an amount not to exceed that set forth in the contract with the owner. The rent supplement contract shall state the maximum dollar amount of the rent supplement payments for any one year based upon the sum necessary to reduce the average rental rate to $60.00 per month for a single person plus a 10 percent contingency allowance.

8. Ten percent of the annual amount allocated for rent supplements shall be allowed for administrative and overhead expenses incurred by the City.
9. Any City supplement funds reserved but not needed at the end of a calendar year shall be held as a credit against the next year's obligation.
10. Owners of new or rehabilitated development providing housing for low-income persons may contract with the City to participate in the LRS program to the extent funds are allocated and available.
11. First priority for occupancy in Local Rent Supplemented units shall be granted to Yerba Buena Center displacees. In the event Yerba Buena Center displacees do not claim City Rent Supplements in a timely manner or in the numbers in which they are made available, such rent supplements shall be available to qualified low-income residents from any area of the City.

5. Part One Conclusion

The expansion of San Francisco's low-rent housing supply by 353 units located in nonprofit housing developments currently under construction or funded by HUD can be accomplished by delivering a LRS to Federally assisted dwelling units for which Federal rent supplements are not available.

It should be noted that Mayor Joseph L. Alioto has recently requested an amendment to the National Housing Act which would authorize the use of Federal rent supplements in 100 percent of the units in certain Section 236 housing developments. Current regulations provide

that only 40 percent of such units may receive Federal rent supplements. In the event such amendment is adopted and subject to HUD's making sufficient funds available, the cost to the City for rent subsidies as provided for in Part One could be reduced to zero.

Pending the possible provision of Federal supplements, Part One of the Supplemental Methods could produce 353 units of low-rent housing at an estimated cost of $159,084 annually. (Rounded off to $160,000 annually.)

Part two

Part Two: Use of Hotel Tax to Provide Local Rent Supplements to Reduce Rents in Privately or Redevelopment Agency Financed and Rehabilitated Transient Hotels

This is Part Two of the supplemental methods to add up to 700 units to the inventory of low-rent housing in San Francisco.

Part Two outlines a method which is utilized to establish the magnitude of subsidy costs to provide up to 350 additional low-rent dwelling units. Part Two would permit the extended use of Local Rent Supplements in the manner outlined in Part One but, in addition, would provide for the acquisition, lease and subletting of dwelling units when such action is a prerequisite to utilization of Local Rent Supplements.

Part Two investigates the addition of up to 350 additional units of housing for persons through the acquisition and rehabilitation of suitable hotels by a nonprofit organization or the Redevelopment Agency with financing derived from bonds or a long-term, low-interest loan.

After administering the development phase and rent-up period, but no longer than one year after acquisition, the owner would lease the rehabilitated and occupied properties to the City for an amount and duration equal to debt service obligations. The City could then sublease to a nonprofit charitable organization or qualified operator for continued operation. Debt service payments and operating expenses, minus commercial and residential rental income, would be assured by Local Rent Supplements contracted for with the operator and funded through hotel tax receipts.

Part Two is divided into four sections:

1. Total Development Costs
2. Operating Costs and Debt Service
3. Financing Plan
4. Part Two Conclusion

1. Total Development Costs

A method has been established for estimating a total Local Rent Supplement budget for the rehabilitation of up to 350 non-housekeeping dwelling units.

Acquisition and construction cost estimates are based on comparable mortgage insurance applications by private owners and developers to HUD in order to obtain mortgage insurance for hotel rehabilitations under provisions of Section 221(d)(3) of the National Housing Act. (See Basic Method, page 8). Such loans, together with Federal rent supplements, are to be used for reconstruction work and subsidizing of existing transient occupant hotels similar in type and condition to those proposed for inclusion in Part Two of the supplemental methods. Research and estimates by appropriate technicians form the basis for approximate acquisition and rehabilitation costs for a prototype structure. By computing the average cost per unit and multiplying by the number of units to be developed, it is possible to arrive at an average estimated acquisition and construction budget.

Set forth below are estimated acquisition and construction costs for 350 units:

Acquisition of hotels with 350 units		$ 2,477,650
Rehabilitation construction		732,900
Builder's general overhead		14,700
Builder's profit		51,300
Architect fee (design)		40,000
Architect fee (supervision)		13,300
Bond premium		24,000
Inspection fees		8,000
Subtotal	$884,200	
Total acquisition and construction		$ 3,361.850

Acquisition and construction costs are only a portion of the total development cost. Other development costs must include:

Financing and carrying charges

Interest during construction (9 mos. at 6%)		$ 162,500
Insurance		12,000
Financing fees		129,000
Working capital		73,700
Title and recording		12,000
Subtotal	$389,200	
Total acquisition cost, construction and financing		3,751,000
Legal and organizational costs		5,000
Agency administrative costs		75,100
Subtotal	$3,831,100	
Contingencies (10% of above subtotal)		383,100
Total estimated development cost		$ 4,214,200

The combination of acquisition, rehabilitation and other development costs results in the estimated amount of bond issue or loan required to finance Part Two.

Variations in the bond or loan interest rate have a significant impact on the total amount required. The interest rate attainable depends on bond market or business banking conditions at the time the bond is sold or the loan is obtained. The financing plan for the public facilities in Yerba Buena Center indicates that an interest rate of between 4-1/2 to 6 percent is expected for Agency bonds. The most favorable low-interest loan rate should fall within the same range.

For the purpose of illustrating how Part Two operates, it has been assumed that Agency bonds generating $4,214,200 at 6 percent for a term of 35 years will be available.

2. Operating Costs and Debt Service

The development of Part Two must include planning for more than the construction phase of the project. Since debt service will run 35 years, it is necessary to provide for the expense of operating the completed housing on a day-to-day basis.

The previous section made reference to the use of comparable mortgage insurance applications for hotel rehabilitation proposals submitted to HUD as a basis for estimating acquisition and construction costs. Such proposals were also used to estimate average operating expenditures for a prototype development.

While it should be cautioned that escalation of material and labor costs may over the years increase these expenditures, it is possible to estimate the current operating cost of 350 units:

Operating Costs: 350 units	Month	Year
Administration: Advertising and management	$ 3,559.50	$ 42,714.00
Operating: Elevator maintenance expenses Fuel and hearing maintenance Domestic hot water Light and miscellaneous power Water Garbage and trash removal Payroll and property taxes (where applicable)	8,937.68	107,252.16
Maintenance: Repairs Exterminating Insurance Ground expense	6,599.69	79,196.38
Replacement reserve	704.84	8,458.08
Operating costs (rounded)	$ 20,000.00	$ 240,000.00

In addition to operating costs, the other major recurring expense is amortization of the bonds or loan which provide the funds for development of the project. Debt service payments for the proposed housing are indicated below:

Debt Service: 350 Units

Total development cost	$ 4,214,200
Amount of bond or loan	4,214,200
Rate of interest	6%
Term	35 years

	Month	Year
Debt service payment	$24,000	$288,000

By combining operating costs and debt service requirements, it is possible to calculate how much revenue must be obtained in order to satisfy all obligations.

Total Operating and Debt Service Obligation: 350 Units

	Month	Year
Operating cost	$ 20,000	$ 240,000
Debt service	24,000	288,000
Total obligation	$ 44,000	$ 528,000

3. Financing Plan

All of the hotels for which Federal subsidies have to date been requested include street level commercial space for small retail stores, coffee shops, and garages. It is therefore likely that the hotels containing the 350 dwelling units to be rehabilitated with local financing will also include such space. The average income at 95 percent occupancy expected from nonresidential occupants is estimated to be approximately $5,417 a month, or $65,000 per year.

A reduction in residential rent income requirements is possible when commercial rent receipts are applied to operating and debt service expenses as indicated by the following:

Total Obligation Less Commercial Income: 350 Units

	Month	Year
Total obligations	$ 44,000	$ 528,000
Commercial income	5,417	65,000
Adjusted total obligation	$ 38,583	$ 463,000

As indicated in Part One the average rent-paying ability of low-income senior citizens receiving Federal rent supplements is approximately $60 per month. Thus, residential rent income at $60 per unit per month at 95 percent occupancy, produces $19,950 a month, or $239,400 per year that can be applied to the adjusted total obligation.

Adjusted Total Obligation Less Residential Income: 350 Units

	Month	Year
Adjusted total obligation	$ 38,583	$ 463,000
Residential rent income	19,950	239,400
Deficit	$ 18,633	$ 223,600

It is evident the amount of rent that can be expected from low-income elderly residents is not sufficient to meet debt service and operating expense requirements. It is therefore proposed that the rehabilitated hotels be leased to the City for an amount and period equal to the owner's debt service obligation. In addition, the City would contract for ane make Local Rent Supplement payments to the sublessee (operator) of the housing as necessary to supplement rental income and provide for the proper operation of the hotels.

The City would obtain funds for its lease payments to the Agency and

the Local Rent Supplement payments to the sublessee from hotel tax receipts in an amount based on the difference between basic required rent and the resident's maximum rent paying ability. Such amount would be calculated on a per dwelling unit basis. This method for making subsidy payments would be similar but not identical to the method for providing rent supplements proposed in Part One. The principal difference is that with respect to the 350 units to be provided through Part Two, the City's assurance of a subsidy will extend through the term of the obligation on the bonds or loan which provided the funds for acquisition and rehabilitation. Otherwise, administration of the LRS program for Part Two would be comparable to the basic elements set forth in Section IV of Part One.

Figure "C" (attached) indicates that City subsidy payments of $53.24 per unit can be anticipated in hotels rehabilitated with local financing. In order to determine the full amount needed to subsidize 350 units, 10 percent of the basic supplement requirement is added for contingencies, such as escalation of operating expenses, as in the Federal rent supplement program, and 10 percent is added for administration of the subsidy program.

Figure "D" (attached) demonstrates the total expenditure for subsidizing the rehabilitated units for one month, one year, and 35 years. The total cost per unit is approximately $63.88 per month. The estimated total cost to the City for 350 units may also be shown:

$	22,361	for one month
$	258,332	for one year
$	9,391,620	for 35 years

As indicated previously it is recommended that the funds required to finance Part Two be derived from the hotel tax. Current hotel tax receipts

are insufficient to provide the supplements proposed in Part Two and an increase in the prevailing hotel tax of 5.5 percent is necessary.

The following indicates the amount of funds generated by a one-half percent increase in the hotel tax rate.

Hotel Tax Income Projection
(Based on Estimated Fiscal 1971-1972 Receipts)

Present Rate	Increased Rate	Cash Increase
5.5%	6.0%	$ 375,000

While the hotel tax might be a useful and appropriate initial source of funds to subsidize rents, it does not necessarily follow that such receipts would be required indefinitely.

It should be noted that HUD regulations provide that Federal rent supplements may be allocated to non-FHA insured housing developments where such developments are assisted

> "by a state or local program providing assistance through loans, loan insurance, or tax abatements, if the project is approved by the Commissioner for receiving rent supplement payments".(6)

Since the hotels owned and rehabilitated by a non-profit owner providing subsidized housing to elderly persons or the Redevelopment Agency would be exempt from property taxes and thus in effect would receive tax abatement, it is possible that in-lieu Federal rent supplements could become available in the future, thus making possible a reduction in City hotel tax contributions to zero.

Another possible source of Federal in-lieu subsidy funds which could be explored is Public Housing Section 23 wherein the Housing Authority leases individual dwelling units or entire structures with funds provided by HUD. Such units are then subleased to clients of the Housing Authority.

Consideration should also be given to other future sources of rent subsidy funds, particularly those which may involve assessing a special surcharge on new commercial "office" rental space developed in the downtown area or in Yerba Buena Center. While a surcharge on Yerba Buena Center would not produce funds in usable amounts for four or five years, the approach nevertheless warrants investigation as a possible future resource in lieu of rent supplement payments from hotel tax receipts.

4. Part Two Conclusion

The addition of 350 units to the City's supply of low-rent housing can be accomplished through Local Rent Supplements to private owners of new or rehabilitated housing, or in the event such is not possible or feasible, through the acquisition and rehabilitation of suitable hotels and their continued operation as low-rent housing by means of a supplement funded by the hotel tax which would pay the difference between the tenant's ability to pay ($60.00 per month) and the required basic rent.

Part Two has an approximate cost of $268,332 per year. The total cost is estimated to be $9,391,620 (rounded off to 9,400.000) over a period of 35 years.

Approval of the Supplement Methods Part One and Part Two should put the City "over the top" with respect to its obligation to produce not less

than 1500 low-rent housing units by November 1973 (see Figure "E", attached).

The implementation of both of the supplemental methods mentioned herein should proceed immediately and be implemented as needed, concurrent with pursuit of the basic method as available.

(1) The basic rental rate is that amount each unit must contribute in income in order for the owner to amortize development costs and meet operating expenses. Such rates may be revised for the purpose of meeting changes in operating costs, but, in the case of Federally subsidized developments, only after review and concurrence by the Department of Housing and Urban Development.

(2) The Section 236 program is described on page 7.

(3)

Development Name and Location	Sponsor Name and Address
Alexis Apartments 5th Street at Clementina	St. Patrick's Church Archdiocese of San Francisco 765 Mission Street
Vincentian Villa 1815 Mission Street	The Society of St. Vincent de Paul 1825 Mission Street
Salvation Army 4th Street at Clara	The Salvation Army 60 Haight Street

(4) Western Park Apartments (Section 236 Housing)
Northern California Presbyterian Homes
1280 Laguna Street
San Francisco 94109

(5) Ordinance No. 123-72 reads, in part:
"$100,000 a year, not to exceed a total sum of $1,000,000, shall be specifically allocated and set aside by the Chief Administrative Officer for transfer to the rent supplement program under the jurisdiction of the Office of Mayor for rent supplements as needed for displacees from the Yerba Buena Center Redevelopment Project Area."

(6) Section 5.15 of FHA regulations on Project Mortgage Insurance.

(7) The Consent Order indicates that 1500 units of new or rehabilitated housing shall be completed within three years (November 9, 1973) provided that residents of Yerba Buena Center shall have first priority as to at least 300 such units. In the absence of such priority 1800 units are required. Of the 1001 units presently funded, under construction or completed, no less than 300 will be available with the required priority. Therefore, the total number of units required to comply with the order is 1500.

Exhibits

PART ONE: AVERAGE RENT SUPPLEMENT PER UNIT

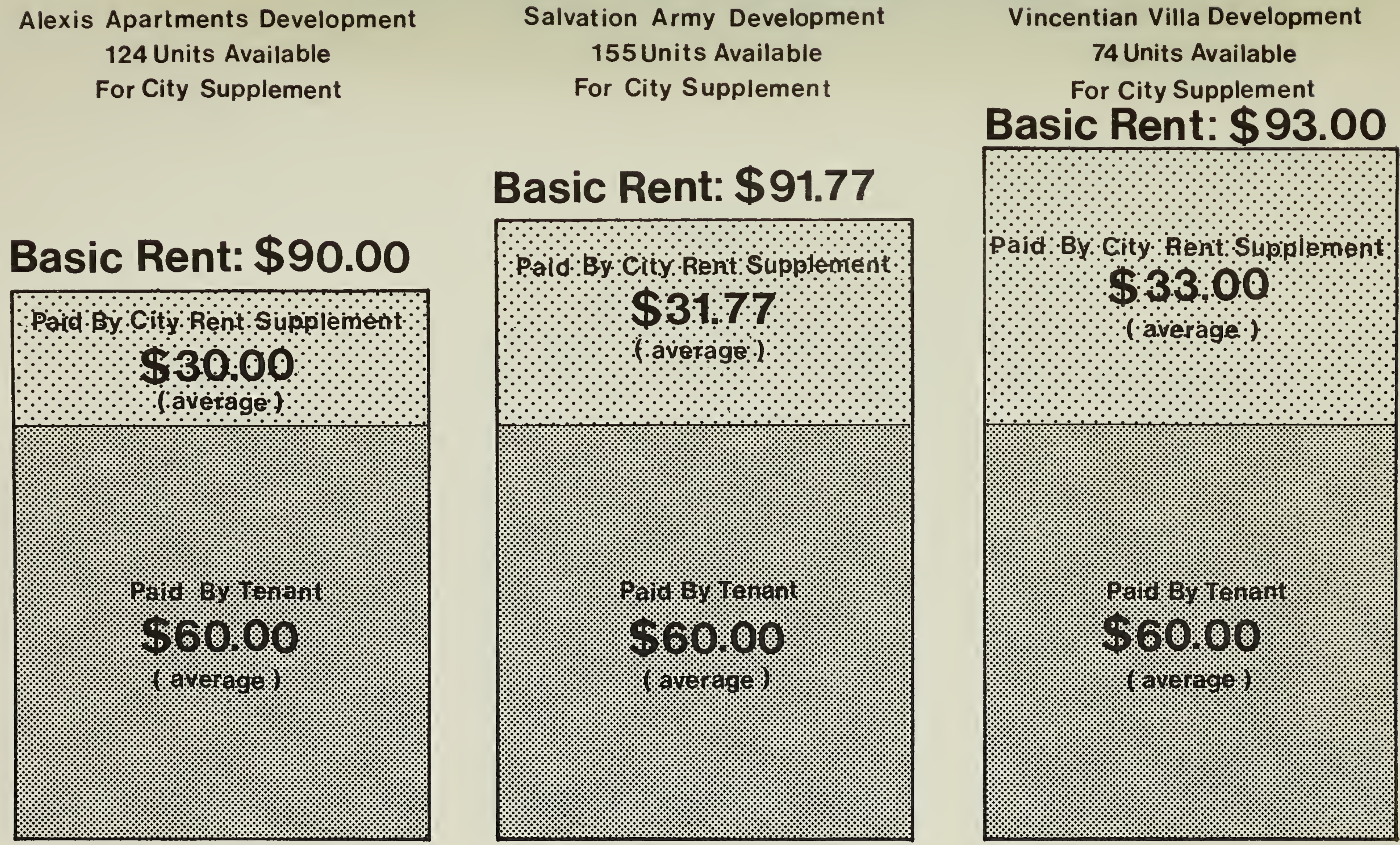

Figure "A" Average City Rent Supplement Per Unit

PART TWO: AVERAGE RENT SUPPLEMENT PER UNIT

Various Redevelopment Agency Hotels
350 Units Available For City Supplement

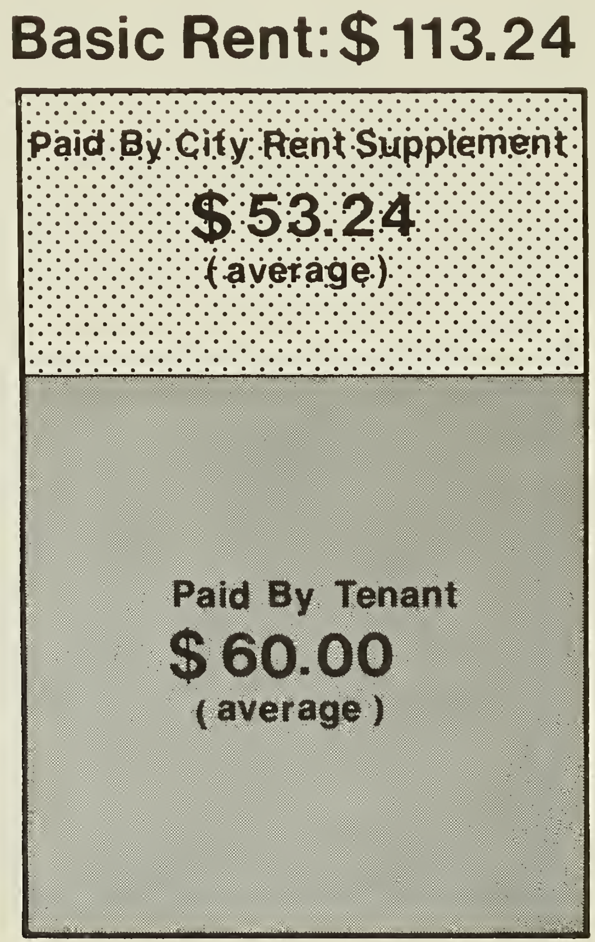

Figure "C" Average City Rent Supplement Per Unit

PART TWO: COST OF PART TWO

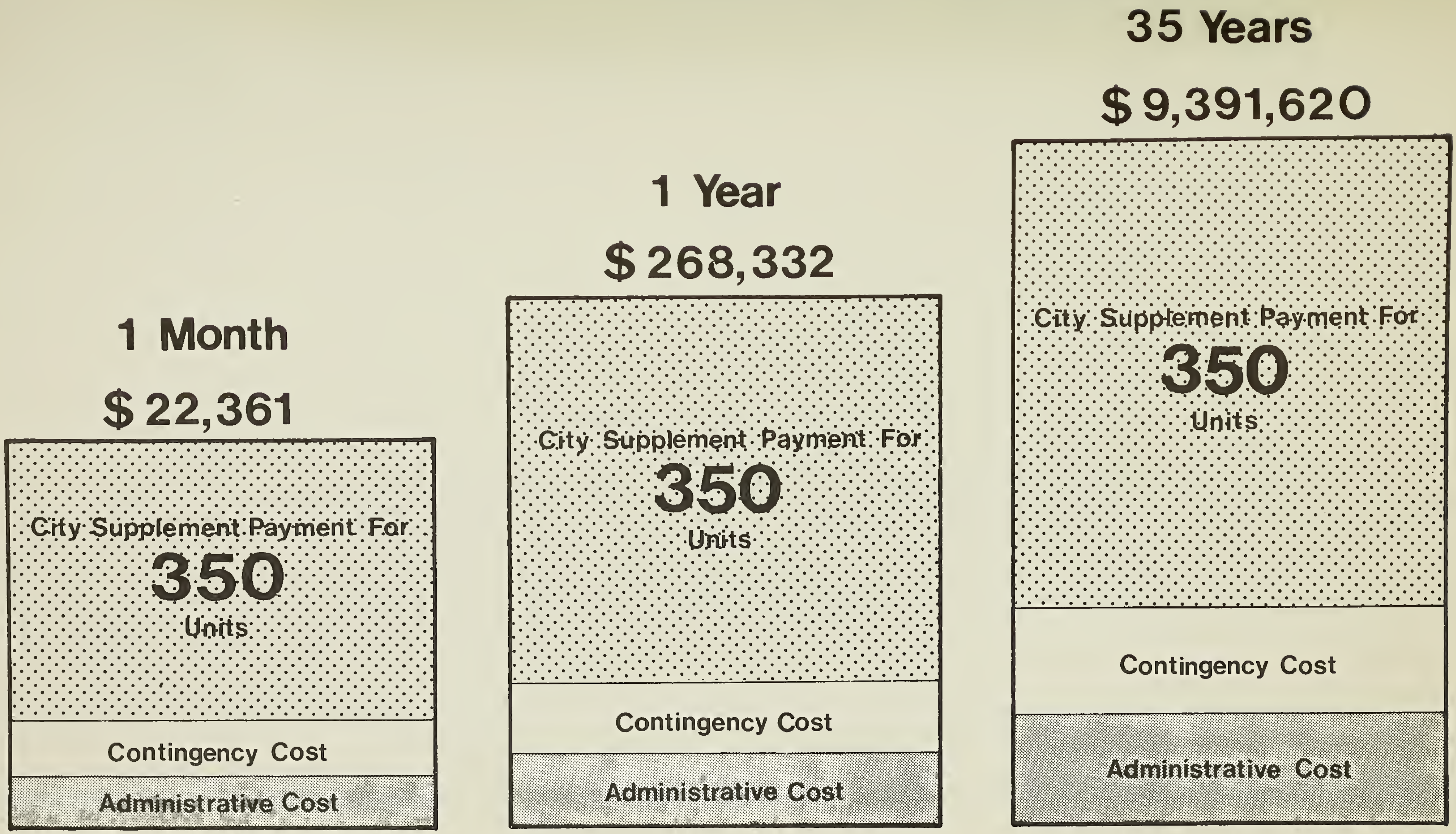

Figure "D" Total City Supplement Cost Per Month, Year, 35 Years

TOTAL NUMBER OF LOW RENT UNITS	PROGRAM	PROJECT IDENTIFICATION		ESTIMATED AVERAGE LOW RENTAL RATE	PERCENT OF LOW RENT UNITS IN PROJECT	ESTIMATED MONTHLY CITY SUPPLEMENT PER UNIT	ESTIMATED ANNUAL COST TO CITY PER UNIT	ESTIMATED ANNUAL TOTAL COST TO CITY	ESTIMATED COMPLETION DATE
11	FHA 236	Western Park Apartments	New Const.	$60.33	40% Federal	0	0	0	Completed
7	FHA 236	Phillips-Fell Phillips-Hayes	Rehab.	varies	20% Federal	0	0	0	Mar. 1973
22	FHA 236	El Bethel Arms	New Const.	$60.00	33% Federal	0	0	0	Nov. 1973
82	Private	Various Salv. Army Projects	Rehab.	$60.00	100% Private	0	0	0	Completed Nov. 1972
569	FHA 221(d)(3)	Various hotels	Rehab.	$60.00	100% Federal	0	0	0	June to Sep. 1973
75	Public Housing	Cal 1-37	New Const.	varies	100% Federal	0	0	0	June 1973
588	FHA 236	Vincentian Villa Salvation Army Alexis Apts.	New Const.	$60.00	40% Federal 60% Local	$36.00 to $39.00	$450.60	$159,084.00	Feb. 1973 Nov. 1973 Apr. 1973
350	Varies	Varies	Rehab.	$60.00	100% Local	$63.88	$766.50	$268,332.00	Oct. 1973
1704	TOTAL							$427,416 TOTAL	

Not less than 300 units will have first priority for Yerba Buena Center relocatees; therefore, the consent order stipulates that 1500 low-rent units be provided (in lieu of a requirement of 1800 low-rent units if no such priority is available).

Current maximum low-rent rate established for public housing occupancy by a single person household is $83.00/ month except displaced households in which case maximum public housing low-rent rate is $107.00/month.

Direct City cost excludes any property tax exemptions.

FIGURE "E"

PROGRAM FOR NOT LESS THAN 1500 LOW RENT HOUSING UNITS